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FM AMEMBASSY SARAJEVO
TO RUEHC/SECSTATE WASHDC PRIORITY 3539
INFO RUEATRS/TREASURY WASHDC PRIORITY

UNCLAS SARAJEVO 001129

SIPDIS

SENSITIVE
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DEPT FOR EUR/SCE (FOOKS/RIEHL), EUR/ACE (VISOCAN),
EB/IFD/OMA (VOLK/YOUTH), D (SMITH), P (BAME)
TREASURY FOR GAERTNER
STATE PLEASE PASS TO USAID

E.O. 12958: N/A
TAGS: [ECON](#) [EFIN](#) [PREL](#) [BK](#)
SUBJECT: BOSNIA: DODIK UPS THE ANTE IN ITA GOVERNING BOARD
DISPUTE

REF: A. SARAJEVO 946
[B](#). SARAJEVO 756
[C](#). 05 SARAJEVO 2953

[1](#)1. (U) Summary. The ongoing controversy over distributions from the BiH Single Account has resulted in the filing of criminal charges by Republika Srpska (RS) Prime Minister Milorad Dodik against Indirect Taxation Authority (ITA) Governing Board Chairman Joly Dixon (who is seconded by the European Commission), and ITA Director Kemal Causevic. Dodik continues to push for the removal of Dixon and the appointment of a Bosnian as ITA Governing Board Chairman, Dodik's actions are unlikely to result in actual criminal prosecution, and are more aimed at political effect. He is also pushing for an "audit" that will resolve RS criticisms of 2005 distributions. Hopefully his proposal will allow the entities to finish the debate over 2005, and move on to the even more challenging question of a final formula for 2006. End Summary.

[1](#)2. (U) On April 28, RS PM Milorad Dodik filed criminal charges with the BiH Prosecutor's Office against Joly Dixon and Kemal Causevic. The charges state that Dixon issued an illegal Governing Board decision on March 28 regarding the temporary allocation of indirect tax revenues for 2006 (discussed Ref B). Causevic is included in the charges for acting on that Decision, despite knowing that it had not been approved by a required vote of the Governing Board. The charges also state that both individuals did not perform their official duties by failing to revise allocation coefficients from the Single Account during 2005 (discussed Ref C). Dodik claims that these actions resulted in damages to the Republika Srpska government.

[1](#)3. (SBU) These charges are part of Dodik's push to eliminate Dixon from the Governing Board, and reach an agreement by which a Bosnian will serve as Chairman in the future. (As a result, it is unlikely that Dixon is in real danger of being arrested or prosecuted.) There is no agreement yet on who might assume that position in the near future, although Prime Minister Terzic's office has suggested the possibility of former RS Finance Minister Svetlana Cenic. Another candidate that has been floated is former Central Bank Governor Peter Nicholl (who holds Bosnian citizenship).

[1](#)4. (SBU) In a recent meeting on May 15 with the Ambassador, Dodik said that he would drop the charges against Dixon and Causevic if the GB could agree to do an audit of 2005 distributions. The terms of such an audit would need to be agreed upon by GB members. Meanwhile, the lack of functionality of the Governing Board was highlighted at its

last meeting on May 12, where after almost six hours the members did not take any decisions on the agenda items. At the next meeting, scheduled for May 24, the GB is supposed to decide on an allocation formula for June (Ref A).

COMMENT

15. (SBU) Dodik's proposal for an audit would simply be a face-saving measure for the political agreement that the entities still have not been able to reach. The allocation formula was not updated during 2005 because the Federation representatives would not agree to the validity of the sales tax data being submitted by RS, likely because they knew they would lose out in a revised formula. To agree on the terms of an "audit", they will essentially have to agree on a calculation basis that they were unable to agree on before. The question of what should have been done is still the same, but the label of "audit" may make the decision easier for everyone to swallow. End Comment.

MCELHANEY